

A seal of good giving

Worries are growing about how charities are run. Fortunately, donors have new ways to check them out.

By Jeremiah Hall | Correspondent of The Christian Science Monitor

SAN FRANCISCO - Every December, Ross Gillfillan gets dozens of offers from charities that woo him with free greeting cards, address labels, T-shirts, tote bags, and magazine subscriptions. But Mr. Gillfillan, a marketing director in San Francisco, is unmoved.

These days, he turns to several charitable rating services to figure out where he'll donate. "I can't spend hours being a detective," he says. "I need to know and I need to trust that [they] are using my money to fulfill [their] promise to me and to society."

Such charity rating and ranking services are mushrooming as a number of recent scandals plague the philanthropic sector. These have hurt donor confidence and are one reason the number of rating services is on the rise. Less than a handful existed a decade ago, experts say. Today, there are more than 50.

"Donors can't tell what's good and bad, and need an intermediary to help guide their giving," says Art Taylor, president and chief executive officer of the Better Business Bureau's Wise Giving Alliance in Arlington, Va. The group has examined 450 of the nation's largest charities; 70 percent measure up.

If Wise Giving's website is any indication, donors are flocking to the service. More than 1.6 million visitors have viewed its charity reports this year.

Rating services differ widely. Some, such as the Wise Giving Alliance, conduct full audits of a charity's fundraising, expenses, and governance, and even investigate donor complaints. Others, such as Charity Navigator, rely on raw financial data and compare performance against industry norms.

"No one sees us as the be all and end all of giving," says Trent Stamp, executive director of Charity Navigator. But "before you buy a car, you check Consumer Reports. Now, donors have that same type of service available on charities."

Rating services aren't the only ones trying to revamp the nonprofit world. Congress has held hearings, amended tax laws, and beefed up enforcement by the Internal Revenue Service. So far, the IRS hasn't had the staff or the tools to rein in charities, experts say. What most concerns legislators and regulators are poor record-keeping, mismanaged finances, illegal dealings among board members, and excessive executive compensation.

For example, two congressmen have called for the resignation of the head of the Statue of Liberty-Ellis Island Foundation after an investigation turned up questionable spending (including \$45,000 a year for a border collie to chase geese off the island). Catholic Healthcare West, one of the largest nonprofit hospital systems, has come under fire for loaning its chief executive \$1.7 million in mortgage money that he might not have to pay back.

If charities don't become accountable on their own, nonprofits and donors can expect more legislation next year aimed at bolstering their accountability, say Senate Finance Committee staffers.

Although many charities acknowledge donors' rising use of rating services, not all are thrilled. "The system [Wise Giving] uses to rate charities is flawed and arbitrary," says Robert Freeman, spokesman for Children's Network International.

The Wise Giving Alliance admonished the Los Angeles group for not accurately reporting expenses and four other disclosure-related criteria. Yet Charity Navigator gave the charity its highest rating, Mr. Freeman points out. "We've made several attempts to clarify and explain, but nothing [in the report] has changed."

Freeman also fears that the negative marks will have a profound impact on his ability to raise funds. "The potential donor really does use rating services and this could impact our ability to help children if donors are scared off," he says.

Messrs. Stamp and Taylor both agree that many charities have been reluctant to embrace rating services, grumbling that no one size fits all. But Taylor insists that without some form of independent performance evaluation, "nonprofits will flounder from scandal to scandal. You have to be accountable and if you're not, you ought to be able to explain why."

Some experts say it's an alarming trend that promises to undermine fundraising by presenting donors with misleading information that doesn't take into account a charity's mission and uniqueness.

"The vast majority of nonprofits are doing a fine job and charities that are transparent and accountable are rewarded by donors," says Bob Ottenhoff, president and CEO of Guidestar, a Williamsburg, Va., nonprofit website that lists tax returns of more than 1 million nonprofits. Rankings "can sometimes be useful, but the core data is too limited to make significant decisions based on one line on one [tax return]," he says.

Although regulators need to improve tax returns to strengthen transparency, he adds, the nonprofit industry should take it upon itself to be accountable to donors. Proponents of charity ranking and rating services say they give donors objective information and comparisons against industry norms.

"Nonprofits have always been the keepers of the information the donor gets and [rating services] scare them because they want to control the information flow," says Stamp. "This is certainly one of the last industries to embrace accountability, but it [will] only strengthen the entire industry by making donors more comfortable with giving."